

**OCEANO COMMUNITY SERVICES DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**



**OCEANO COMMUNITY SERVICES DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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## FINANCIAL SECTION





Moss, Levy & Hartzheim LLP

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors of Oceano Community Services District  
Oceano, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Oceano Community Services District (District), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Oceano Community Services District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the budgetary comparison information on page 41, the schedule of proportionate share of net pension liability on page 42, and the schedule of pension contributions on pages 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries of the basis financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018, on our consideration of the Oceano Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Remy & Halzheim LLP*

Santa Maria, California  
June 18, 2018



The management of the Oceano Community Services District (OCSD) has prepared the following narrative for the readers of the District's financial statements to provide an overview and analysis of the District for the year ended June 30, 2017. The District encourages readers to consider the information together with the District's financial statements following this section.

The OCSD is an independent special district serving a population of approximately 7,300. It is governed by a five (5) member Board of Directors elected by voters within the District's boundaries, and all Board members must reside within the District's boundaries. The District is governed by California Government Code Sections 61000 et al, as well as other specific statutes and regulations that govern its operations.

The District provides both governmental-type activities and business type activities. Governmental activities include fire and emergency services and street lighting. Business-type activities include water service, wastewater collection service, and garbage and recycling services.

### **District Services and Related Agencies**

As a special District, the District's powers are authorized by the San Luis Obispo County Local Agency Formation Commission (LAFCo). Any proposed additions to the District services, modification of District boundaries, or services outside of the District boundaries must be approved in advance by LAFCo.

The following provides a brief overview of each of the District's services.

#### **Fire and Emergency Services**

The OCSD provides fire and emergency services through the Five Cities Fire Authority (FCFA). The FCFA was created as a "joint exercise of powers authority" through an agreement approved in 2010 between the cities of Arroyo Grande and Grover Beach, and the OCSD. OCSD pays a portion of the annual costs of FCFA services based on a funding formula established in the FCFA agreement. One member of the OCSD Board of Directors is appointed to serve OCSD on the FCFA Board of Directors and a second member of the OCSD Board is an alternate member on the FCFA Board. Since the OCSD does not control the operations of FCFA, the financial statements and audit of the FCFA are separate from the OCSD.

#### **Lighting Services**

The District provides street lighting services in certain areas of the community. The County of San Luis Obispo and the California Department of Transportation also provide some street lighting.

### Parks and Recreation Services

The District is authorized to provide parks and recreation services but has no programs at this time.

### Water Services

The District provides potable water service to approximately 2,200 connections. An annual Consumer Confidence Report (CCR) is mailed to all water customers which provides a summary of the District's water quality including a comparison to regulatory requirements. The California State Division of Drinking Water regulates the District's water supplies and the CCR can be found on the District website or by calling the District's offices.

The District's water supplies include groundwater, Lopez water, and State water. Regulation of the District's groundwater supply is also subject to the stipulations and judgment adopted for the adjudication of the Santa Maria groundwater basin. Lopez and State water supplies are provided by the County of San Luis Obispo under terms of water supply contracts. The District's water supply reliability is relatively high and the District was increasing water in storage during the recent drought.

### Wastewater Collection Services

The District provides wastewater collection services through a network of neighborhood pipelines that flow into pipelines and facilities owned by the South San Luis Obispo County Sanitation District (SSLOCSD), which is responsible for treatment and disposal. The SSLOCSD customers include the customers of OCSD as well as those of the cities of Arroyo Grande and Grover Beach. Since the OCSD does not control the operations of SSLOCSD, the financial statements and audit of the SSLOCSD are separate from the OCSD. OCSD operations are regulated by the Central Coast Regional Water Quality Control Board.

### Solid Waste and Recycling Services

The District provides mandatory solid waste and recycling services through a franchise agreement with South County Sanitary Services Incorporated (SCSS Inc.), which is a subsidiary of Waste Connections Incorporated, a publicly traded corporation "WCN" on the New York Stock Exchange. The District enforces illegal dumping within the community and other violations. The District has also adopted incentive programs designed to promote a cleaner community. Since OCSD does not control operations of SCSS or WCN, the financial statements and audits of those entities are separate from the District.

## **Overview of the Financial Statements**

This annual report contains the following four parts.

- Management Discussion and Analysis (this section),
- The Basic Financial Statements
- Notes to the Financial Statements
- Supplementary Information - a comparison of the District's budgets to actual results and pension disclosures.

This management discussion and analysis is intended to provide an overview of the most relevant information affecting the District's financial affairs for the year and the District's end of the year status. The basic financial statements provide information on the governmental and the enterprise activities including operating and non-operating revenues and expenditures, current assets, non-current assets, capital assets, and current and long-term liabilities.

The notes to the financial statements provide additional detailed information and explanations on the financial statements. The budget to actual comparison illustrates differences between the board adopted budget and actual expenditures, and reflects a positive budget variance of \$84,713 for the Governmental Fund. Of this amount, \$76,292 was utilized to repay a portion of an interfund loan owed by the Governmental Fund to the Sewer Fund, \$68,354 resulted from unanticipated revenues, and the remainder of \$16,359 resulted from net savings in budgeted expenditures and less than budgeted transfers in.

## Financial Statement Analysis and Highlights

The District's Statements of Net Position is illustrated below for the Governmental and Business - type activities and subsequently, for each of the Enterprise Funds.

Statements of Net Position as of June 30, 2017 and 2016				
	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Current and other assets	\$ 762,744	\$ 675,607	\$ 3,444,690	\$ 3,391,467
Capital assets, net	1,754,618	1,776,857	2,721,228	2,975,589
<b>Total Assets</b>	<b>2,517,362</b>	<b>2,452,464</b>	<b>6,165,918</b>	<b>6,367,056</b>
Deferred Outflow of Resources	17,503	9,407	155,158	47,759
Current liabilities	34,040	93,131	79,432	384,659
Non-current liabilities	161,762	95,020	561,233	441,539
<b>Total Liabilities</b>	<b>195,802</b>	<b>191,151</b>	<b>640,665</b>	<b>826,198</b>
Deferred inflow of resources	9,361	11,962	49,362	83,887
Net Investment in capital assets	1,754,618	1,776,857	2,652,790	2,884,310
Restricted	209,536	189,273	227,837	202,291
Unrestricted	365,548	292,628	2,750,422	2,418,129
<b>Net Position</b>	<b><u>\$ 2,329,702</u></b>	<b>2,258,758</b>	<b><u>\$ 5,631,049</u></b>	<b>5,504,730</b>
Prior period adjustment		(34,477)		34,477
<b>Net Position as Restated</b>		<b><u>\$ 2,224,281</u></b>		<b><u>\$ 5,539,207</u></b>

The Net Position of the District's Governmental Fund changed in the year ending June 30, 2017 as a result of an operating deficit of \$105,421 and the combination of three items from a prior period adjustment that totals \$(34,477) for a net increase of \$70,944. The prior period adjustments result from the reclassification of interest expense in the amount of \$34,477 due to the sewer fund that was not recognized.

The Net Position of the Business-type Activities remained consistent with the previous year. As illustrated on the following page, current liabilities in the Water Fund and Wastewater fund held fewer deposits with customers for development. Many of these developments connected before June 30, 2017 and both funds received connection fee revenue. The prior period adjustments made in the Business – type Activities were related to interfund interest payments. The majority of the interfund interest can be seen on the next page in the Wastewater Fund.

Statements of Net Position as of June 30, 2017 and 2016						
	Water Fund		Wastewater Fund		Garbage Fund	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,952,624	\$ 1,965,198	\$ 1,666,990	\$ 1,648,594	\$ 367,793	\$ 357,071
Capital assets, net	1,326,478	1,456,439	1,392,786	1,519,000	1,964	150
<b>Total Assets</b>	<b>3,279,102</b>	<b>3,421,637</b>	<b>3,059,776</b>	<b>3,167,594</b>	<b>369,757</b>	<b>357,221</b>
Deferred Outflow of Resources	85,461	26,663	61,067	18,445	8,630	2,651
Current Liabilities	609,647	924,832	35,112	61,858	585	206
Non-current liabilities	316,499	255,468	198,951	149,531	22,588	13,699
<b>Total Liabilities</b>	<b>926,146</b>	<b>1,180,300</b>	<b>234,063</b>	<b>211,389</b>	<b>23,173</b>	<b>13,905</b>
Deferred inflow of resources	24,538	43,439	16,349	30,051	8,475	10,397
Net Investment in capital assets	1,266,830	1,381,036	1,385,462	1,503,124	498	150
Restricted	227,837	202,291	-	-	-	-
Unrestricted	919,212	641,234	1,484,969	1,441,475	346,241	335,420
<b>Net Position</b>	<b>\$ 2,413,879</b>	<b>2,224,561</b>	<b>\$ 2,870,431</b>	<b>2,944,599</b>	<b>\$ 346,739</b>	<b>335,570</b>
Prior period adjustment		2,460		30,137		1,880
<b>Net Position as Restated</b>		<b>\$ 2,227,021</b>		<b>\$ 2,974,736</b>		<b>\$ 337,450</b>

Following the District's Statements of Net Position are the Statements of Revenues, Expenses and Changes in Net Position.

Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2017 and 2016				
	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Program Revenues	\$ 25,358	\$ 579,812	\$ 2,785,751	\$ 2,721,081
Operating Expenses:				
Administrative	(891,325)	(738,106)		
Fire Protection	(820,084)	(754,337)		
Street Lighting	(37,970)	(35,357)		
Enterprise Activities			(2,016,573)	(2,642,416)
Net Operating Income / (Loss)	(1,724,021)	(947,988)	769,178	78,665
Ad valorem taxes	958,154	895,820	-	-
Other non-operating income	149,197	158,192	44,755	1,910
Transfers	722,091	-	(722,091)	-
Total Non-Operating Income	1,829,442	1,054,012	(677,336)	1,910
Change in Net Position	<u>\$ 105,421</u>	<u>\$ 106,024</u>	<u>\$ 91,842</u>	<u>\$ 75,237</u>

In summary, the Governmental Activities went from a Net Income of \$106,024 to a Net Income of \$105,421 in 2017. The increase in income is related to the property tax revenues and public facilities fees from the County of San Luis Obispo for the fiscal year ending June 30, 2017.

The Business-type Activities went from a Net Income for the prior fiscal year of \$75,237 to a Net Income in the amount of \$91,842. The Business-type activities broken out by fund in the table on the next page.

Statements Revenues, Expenses, and Changes in Net Position as of June 30, 2017 and 2016						
	Water Fund		Wastewater Fund		Garbage Fund	
	2017	2016	2017	2016	2017	2016
Operating Revenues	\$ 2,290,356	\$ 2,159,629	\$ 400,898	\$ 480,827	\$ 94,497	\$ 80,625
Operating Expenditures and Transfers Out	2,104,044	2,063,323	544,495	534,569	85,398	44,524
Net Operating Income / (Loss)	186,312	96,306	(143,597)	(53,742)	9,099	36,101
Other non-operating income	4,813	1,171	39,675	728	267	11
Non-operating Expenditures	(4,267)	(4,249)	(383)	(1,089)	(77)	
Net Non-Operating Income	546	(3,078)	39,292	(361)	190	11
Net Income / (Loss)	\$ 186,858	\$ 93,228	\$ (104,305)	\$ (54,103)	\$ 9,289	\$ 36,112

The increase in the Water Fund reflects the savings in cost of State Water during this fiscal year 2017. Revenues in the Water Fund were higher than the prior year because the annual rate increase that results from the change in the consumer price index and wholesale water costs.

The Wastewater Fund continues to incur a Net Loss because the revenues are not increased every year similar to the Water Fund. The cost from the administrative allocation which is included in the Operating Expenses is the majority of the Wastewater Fund's Expenses. This allocation is anticipated to be modified in the future so that the District's indirect charges to the sewer fund will be reduced. A change in indirect charges will increase cost allocations to the water fund, which reflect a greater share of the District's overall enterprise activities.

The Garbage Fund's Net Income decreased from the prior year because the District hired an intern to create the Solid Waste Programs adopted by the Board on February 8, 2017. These programs include policies to address illegal dumping, unsanitary conditions and related solid waste problems in the District.

### **Capital Assets**

The District owns the community fire station, administrative offices, Sheriff's substation, the Oceano Depot, the Community Center, the old fire station, plus some undeveloped land. The community fire station is provided to FCFA for their use for \$15,000 per year. The Sheriff substation is leased to the County of San Luis Obispo for \$113,400 per year. The Oceano Depot and Community Center are leased to a non-governmental agency and the Lucia Mar Unified School District at \$1 per year each based on the multi-party agreements developed for those properties in conjunction with grants that funded the development of the community center and the preservation of the historic Oceano train depot.

The water and wastewater infrastructure of the District ranges drastically in age. Many of the water and wastewater system pipelines were originally constructed in the 1950's. The District

completed water and wastewater system master plans in 2009 but revenue shortfalls have deferred infrastructure replacement projects. Currently, the District is developing updated capital improvement program for infrastructure replacement, which is being substantially funded with grants approved by the State of California. The District anticipates completing preparation of a capital improvement program and addressing revenue requirements for infrastructure replacement in 2018.

### **Debt Activities**

The District's issued debt is relatively low. The only fund with external debt is the Water Fund, which issued a revenue bond in 1979 which was been subsequently paid in full in October 2017. Annual principal payments are \$15,000 and interest paid in fiscal year ended June 30, 2017 was \$285.

Internal debt, or borrowing between District funds, is more significant. Footnote #3 to the Financial Statements illustrates interfund liabilities. During the year ended June 30, 2017, the District recorded the following interfund activity to adhere to resolutions adopted April 26, 2017 to ensure repayment of interfund liabilities.

Interfund (Due to) / Due From	Beginning Balances	Interfund Payments Out	Interfund Payments In	Ending Balances
General Fund Due to Sewer Fund	\$ (627,459)	\$ 76,292	\$ - 0 -	\$ (551,167)
General Fund Due from Water Fund	520,285	- 0 -	30,459	489,827
Net General Fund Due to Other Funds	(107,174)	76,292	30,459	(61,340)
Water Fund Due to the General Fund	(520,285)	30,459	\$ - 0 -	(489,827)
Water Fund Due to Garbage Fund	(60,150)	7,260	- 0 -	(52,890)
Sewer Fund Due from General Fund	627,459	- 0 -	76,292	551,167
Garbage Fund Due from Water Fund	60,150	- 0 -	7,260	52,890
Totals	\$ - 0 -	\$ 114,011	\$ 114,011	\$ - 0 -

Note: The beginning balances reflected the restated amounts described in Footnote #11 to the Financial Statements. The District made a prior period adjustment, which restated beginning balances shown above to include deferred interest for the fiscal year ending June 30, 2016, which had been incurred but not recorded.

The prior period adjustments for inter-fund debt were originally approved by the OCSD Board of Directors on April 13, 2016 with an update approved on April 26, 2017. The change was made to reflect the Sheriff's building as a Governmental Fund asset and to no longer account for the Sheriff's building as a water and sewer fund asset. The change improves the accounting of the facility since it is not an asset used to provide water or wastewater services to the community, and the change will improve the accounting of interfund debt used to construct the facility. The



Board of Directors also established annual budget payments for the interfund debt so that it can be paid in full to coincide with the term of the lease with the County. Those payments were initiated in the year ending June 30, 2017, as illustrated above.

**Budget and Rates**

The District's budget for the year ended June 30, 2017 reflects the water system rate increase that was approved by the Board of Directors on April 20, 2015, as adjusted based on increases in the consumer price index and wholesale water costs. The annual increases are prescribed in Ordinance 2015-01, and in accordance with California Government Code section 53756. The rates eliminated the Water Fund's change in net position of \$(182,216) that occurred in the fiscal year ended June 30, 2015, provided a Water Fund positive change in net position of \$93,228 for the fiscal year ended June 30, 2016, and a positive change of \$186,858 for the fiscal year ended June 30, 2017. Establishing fiscal stability for the Water Fund has been important so that the District can move forward with evaluating long-term infrastructure needs and a system that includes significant deferred maintenance and replacement needs. For those upcoming efforts, the District has secured approximately \$375,000 in grants from state agencies for the water system and related needs.

No rate changes affected the wastewater fund for the fiscal year ended June 30, 2017. The wastewater fund change in net position decreased for the year ended June 30, 2017 in the amount of \$(104,305). The decrease in net position was \$(54,103) for the year ended June 30, 2016 and \$(16,927) for the year ended June 30, 2015. The decreasing financial status of the wastewater fund resulted because rental revenues from the Sheriff substation are now dedicated to repaying the General Fund's interfund loan due to the wastewater fund. The future annual repayments in from the General Fund to the wastewater fund are shown below:

Year Ended	Beginning Balance	Interest Payment	Principal Payment	Total Payment	Ending Balance
June 30, 2018	\$ 551,167	\$ 33,070	\$ 80,870	\$ 113,940	\$ 470,297
June 30, 2019	470,297	28,217	85,722	113,939	384,575
June 30, 2020	384,575	23,075	90,865	113,940	293,710
June 30, 2021	293,710	17,623	96,317	113,940	197,393
June 30, 2022	197,392	11,844	102,096	113,940	95,297
June 30, 2023	\$ 95,297	\$ -0-	\$ 95,297	95,297	\$ -0-

The operating shortfall for the sewer fund needs to be addressed in the future. The District's two year budget for fiscal years 2018/19 and 2019/20 is anticipated to include modifications of the District's indirect charges to the sewer fund that will reduce those costs while increasing indirect cost allocations to the water fund, which reflect a greater share of the District's overall

enterprise activities. In addition, addressing deferred infrastructure needs of the sewer fund will also become a higher priority, which may also require sewer fund rate increases in the near future.

An increase of 3.25% in garbage rates for the SCSS Inc. were approved on October 28, 2015, and inflationary adjustments that went into effect on January 1, 2017 and will also go into effect on January 1, 2018.

### **Future Outlook**

Overall, the District's financial outlook has maintained a stable position during the year ended June 30, 2017 and has improved from prior years that included significant operating losses. The primary challenges remain relating to deferred infrastructure repairs and replacement.

In addition to the fiscal improvement in the District, significant human resource actions were also approved by the Board of Directors. The position of Business and Accounting Manager was filled for the entire year ending June 30, 2017 which enabled the District to eliminate the District's Office Manager and Accountant positions. This staffing change is providing long term cost savings with a higher level of expertise for business and accounting needs. Transitioning financial and business functions from the General Manager to the Business and Accounting Manager is also improving the District's ability to address District policy and service priorities, including deferred infrastructure and other issues.

Currently, the District is evaluating deferred infrastructure needs and is utilizing grants obtained from the State of California for much of this effort. Identifying costs and rate impacts to fund the deferred infrastructure is anticipated to be complete in 2018. Community workshops will occur during the District's work efforts to provide residents and property owners with information on District needs, estimated fiscal impacts and to obtain community input.

OCEANO COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2017

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 580,301	\$ 2,667,258	\$ 3,247,559
Restricted cash and investments	209,536		209,536
Accounts receivable, net	7,858	414,956	422,814
Prepaid items	26,389	70,557	96,946
Deposits		203,926	203,926
Inventory		26,653	26,653
Interfund loans	(61,340)	61,340	
Capital assets:			
Non Depreciable:			
Land	610,390	6,000	616,390
Construction in progress		23,244	23,244
Depreciable:			
Buildings and improvements	2,052,181	6,793,281	8,845,462
Equipment, vehicles and machinery	254,517	758,235	1,012,752
Software		195,918	195,918
Accumulated depreciation	(1,162,470)	(5,055,450)	(6,217,920)
Total assets	<u>2,517,362</u>	<u>6,165,918</u>	<u>8,683,280</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred pensions	17,503	155,158	172,661
Total deferred outflow of resources	<u>17,503</u>	<u>155,158</u>	<u>172,661</u>
<b>LIABILITIES</b>			
Accounts payable	12,679	51,350	64,029
Accrued wages and benefits	8,866	2,984	11,850
Accrued interest payable		375	375
Deposits	3,000	24,723	27,723
Unearned revenue	9,495		9,495
Noncurrent liabilities:			
Due within one year		23,195	23,195
Due in more than one year	161,762	538,038	699,800
Total liabilities	<u>195,802</u>	<u>640,665</u>	<u>836,467</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred pensions	9,361	49,362	58,723
Total deferred inflow of resources	<u>9,361</u>	<u>49,362</u>	<u>58,723</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,754,618	2,652,790	4,407,408
Restricted for:			
Capital facilities	209,536		209,536
Water joint venture agreements and debt service		227,837	227,837
Unrestricted	365,548	2,750,422	3,115,970
Total net position	<u>\$ 2,329,702</u>	<u>\$ 5,631,049</u>	<u>\$ 7,960,751</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2017

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
<b>Governmental activities:</b>				
Administration	\$ 891,325	\$ -	\$ -	\$ 25,358
Fire protection	820,084			
Street lighting	37,970			
<b>Total governmental activities</b>	<b>1,749,379</b>			<b>25,358</b>
<b>Business-type activities:</b>				
Water	1,751,233	2,121,184	169,172	
Sewer	227,475	390,058	10,840	
Garbage	37,865		94,497	
<b>Total business-type activities</b>	<b>2,016,573</b>	<b>2,511,242</b>	<b>274,509</b>	
<b>Total governmental</b>	<b>\$ 3,765,952</b>	<b>\$ 2,511,242</b>	<b>\$ 274,509</b>	<b>\$ 25,358</b>

General Revenues:

Taxes:

Property

Use of money and property

Other general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Prior-period adjustment

Net position - beginning of fiscal year, restated

Net position - end of fiscal year

The notes to basic financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (865,967)	\$ -	\$ (865,967)
(820,084)		(820,084)
(37,970)		(37,970)
(1,724,021)		(1,724,021)
	539,123	539,123
	173,423	173,423
	56,632	56,632
	769,178	769,178
(1,724,021)	769,178	(954,843)
958,154		958,154
143,249	39,537	182,786
5,948	5,218	11,166
722,091	(722,091)	
1,829,442	(677,336)	1,152,106
105,421	91,842	197,263
2,258,758	5,504,730	7,763,488
(34,477)	34,477	
2,224,281	5,539,207	7,763,488
\$ 2,329,702	\$ 5,631,049	\$ 7,960,751

OCEANO COMMUNITY SERVICES DISTRICT  
GOVERNMENTAL FUND  
BALANCE SHEET  
June 30, 2017

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 580,301
Restricted cash and investments	209,536
Accounts receivable	7,858
Prepaid items	26,389
Due from other funds	<u>489,827</u>
Total assets	<u>\$ 1,313,911</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 12,679
Accrued payroll and benefits	8,866
Deposits	3,000
Unearned revenue	9,495
Due to other funds	<u>551,167</u>
Total liabilities	<u>585,207</u>
Fund Balance:	
Nonspendable:	
Prepaid items	26,389
Restricted:	
Capital facilities	209,536
Assigned:	
Equipment replacement	3,300
Infrastructure replacement	70,066
Unassigned	<u>419,413</u>
Total fund balance	<u>728,704</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,313,911</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUND - BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 June 30, 2017

Total fund balance - governmental fund \$ 728,704

In the governmental fund, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Due f Capital assets at historical cost	\$ 2,917,088	
Accumulated depreciation	<u>(1,162,470)</u>	
Net		1,754,618

Long-term liabilities: In the governmental fund, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported.

Long-term liabilities relating to governmental activities consist of:

Compensated absences payable	\$ 55,999	
Net pension liability	<u>105,763</u>	
Total		(161,762)

In the governmental fund, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

		<u>8,142</u>
Total net position - governmental activities	\$	<u>2,329,702</u>

The notes to basic financial statements are an integral part of this statement.

**OCEANO COMMUNITY SERVICES DISTRICT**  
**GOVERNMENTAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
For the Fiscal Year Ended June 30, 2017

	<u>General Fund</u>
<b>Revenues:</b>	
Taxes and assessments	\$ 958,154
Public facility fee	25,358
Interest income	2,609
Rental income	140,640
Other	5,948
	<hr/>
Total revenues	1,132,709
	<hr/>
<b>Expenditures:</b>	
Salaries, wages and directors' stipends	401,031
Payroll taxes and employee benefits	137,361
Liability insurance	25,931
Repairs and maintenance	24,517
Administrative services	25,338
Data processing	7,318
Dues and fees	22,798
Education	2,746
Legal fees	58,620
Miscellaneous	7,047
Office expense	7,297
Street lighting	36,202
Professional fees	63,727
Utilities	50,672
Public safety	779,965
Capital outlay	20,369
Interest expense	37,648
	<hr/>
Total expenditures	1,708,587
	<hr/>
Excess of revenues over (under) expenditures	(575,878)
	<hr/>
<b>Other Financing Sources (Uses):</b>	
Transfers in	722,091
	<hr/>
Total other financing sources (uses)	722,091
	<hr/>
Net change in fund balance	146,213
	<hr/>
Fund balance - July 1	481,901
	<hr/>
Prior-period adjustment	100,590
	<hr/>
Fund balance - July 1, restated	582,491
	<hr/>
Fund balance - June 30	\$ 728,704
	<hr/> <hr/>

The notes to basic financial statements are an integral part of this statement.



**OCEANO COMMUNITY SERVICES DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF**  
**THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2017

Total net change in fund balance - governmental fund	\$	146,213
Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$20,369 is less than depreciation expense \$(42,608) in the period.		(22,239)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$18,507.		(18,507)
In the governmental fund, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		(46)
Changes in net position - governmental activities	\$	<u>105,421</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 June 30, 2017

	Water Fund	Sewer Fund	Garbage Fund	Totals
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 1,313,909	\$ 1,055,801	\$ 297,548	\$ 2,667,258
Accounts receivable, net	341,523	56,192	17,241	414,956
Prepaid expenses	69,494	949	114	70,557
Inventory	23,772	2,881		26,653
Due from other funds		551,167	52,890	604,057
Total current assets	<u>1,748,698</u>	<u>1,666,990</u>	<u>367,793</u>	<u>3,783,481</u>
Noncurrent assets:				
Joint venture deposits	203,926			203,926
Non depreciable capital assets:				
Land	6,000			6,000
Construction in progress	15,103	8,141		23,244
Depreciable capital assets:				
Buildings and improvements	4,215,804	2,577,477		6,793,281
Equipment, vehicles and machinery	481,097	261,589	15,549	758,235
Software	156,734	39,184		195,918
Accumulated depreciation	<u>(3,548,260)</u>	<u>(1,493,605)</u>	<u>(13,585)</u>	<u>(5,055,450)</u>
Total noncurrent assets	<u>1,530,404</u>	<u>1,392,786</u>	<u>1,964</u>	<u>2,925,154</u>
Total assets	<u>3,279,102</u>	<u>3,059,776</u>	<u>369,757</u>	<u>6,708,635</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred pensions	85,461	61,067	8,630	155,158
Total deferred outflows of resources	<u>85,461</u>	<u>61,067</u>	<u>8,630</u>	<u>155,158</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	21,061	30,269	20	51,350
Accrued wages and benefits	1,699	1,232	53	2,984
Accrued interest payable	375			375
Customer deposits	23,673	1,050		24,723
Due to other funds	542,717			542,717
Capital lease - current portion	5,122	2,561	512	8,195
Revenue bond payable - current portion	15,000			15,000
Total current liabilities	<u>609,647</u>	<u>35,112</u>	<u>585</u>	<u>645,344</u>
Noncurrent liabilities:				
Capital lease - non-current portion	9,526	4,763	954	15,243
Bond payable - non-current portion	30,000			30,000
Net pension liability	276,973	194,188	21,634	492,795
Total noncurrent liabilities	<u>316,499</u>	<u>198,951</u>	<u>22,588</u>	<u>538,038</u>
Total liabilities	<u>926,146</u>	<u>234,063</u>	<u>23,173</u>	<u>1,183,382</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pensions	24,538	16,349	8,475	49,362
Total deferred inflows of resources	<u>24,538</u>	<u>16,349</u>	<u>8,475</u>	<u>49,362</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,266,830	1,385,462	498	2,652,790
Restricted	227,837			227,837
Unrestricted	919,212	1,484,969	346,241	2,750,422
Total net position	<u>\$ 2,413,879</u>	<u>\$ 2,870,431</u>	<u>\$ 346,739</u>	<u>\$ 5,631,049</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 For the Fiscal Year Ended June 30, 2017

	Water Fund	Sewer Fund	Garbage Fund	Totals
<b>Operating Revenues:</b>				
Charges for services	\$ 2,121,184	\$ 390,058	\$ -	\$ 2,511,242
Other fees	169,172	10,840	94,497	274,509
Total operating revenues	<u>2,290,356</u>	<u>400,898</u>	<u>94,497</u>	<u>2,785,751</u>
<b>Operating Expenses:</b>				
Salaries and wages	126,854	56,926	16,100	199,880
Payroll taxes and employee benefits	29,786	14,587	1,652	46,025
Repairs and maintenance	41,681	8,834	395	50,910
Legal and professional	93,585	5,312	6,930	105,827
Dues and fees	9,655	2,862		12,517
Education	1,212	268		1,480
Water meters	9,897			9,897
Wheeled water expense	21,465			21,465
Office expense	884	611	1,114	2,609
Supplies	17,556	8,130	446	26,132
Utilities	12,263	1,349	9,424	23,036
Water supply expense	1,226,316			1,226,316
Miscellaneous	5,350	1,794	1,003	8,147
Depreciation	150,462	126,419	724	277,605
Total operating expenses	<u>1,746,966</u>	<u>227,092</u>	<u>37,788</u>	<u>2,011,846</u>
Operating income (loss)	<u>543,390</u>	<u>173,806</u>	<u>56,709</u>	<u>773,905</u>
<b>Non-Operating Revenues (Expenses):</b>				
Interest income	1,768	37,648	121	39,537
Interest expense	(4,267)	(383)	(77)	(4,727)
Other non-operating revenue	3,045	2,027	146	5,218
Total non-operating revenues (expenses)	<u>546</u>	<u>39,292</u>	<u>190</u>	<u>40,028</u>
Income before transfers	543,936	213,098	56,899	813,933
<b>Transfers:</b>				
Transfers (out)	(357,078)	(317,403)	(47,610)	(722,091)
Total transfers	<u>(357,078)</u>	<u>(317,403)</u>	<u>(47,610)</u>	<u>(722,091)</u>
Change in net position	<u>186,858</u>	<u>(104,305)</u>	<u>9,289</u>	<u>91,842</u>
Net position (deficit) - July 1	2,224,561	2,944,599	335,570	5,504,730
Prior period adjustments	2,460	30,137	1,880	34,477
Net position (deficit) - July 1, restated	<u>2,227,021</u>	<u>2,974,736</u>	<u>337,450</u>	<u>5,539,207</u>
Net position (deficit) - June 30	<u>\$ 2,413,879</u>	<u>\$ 2,870,431</u>	<u>\$ 346,739</u>	<u>\$ 5,631,049</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 For the Fiscal Year Ended June 30, 2017

	Water Fund	Sewer Fund	Garbage Fund	Totals
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers	\$ 1,973,360	\$ 368,988	\$ 81,286	\$ 2,423,634
Payments to suppliers	(1,437,188)	(26,623)	(19,412)	(1,483,223)
Payments to employees	(156,665)	(70,397)	(17,840)	(244,902)
Net cash provided (used) by operating activities	<u>379,507</u>	<u>271,968</u>	<u>44,034</u>	<u>695,509</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Acquisition of capital assets	(15,103)	(8,141)		(23,244)
Principal paid on capital debt	(18,215)	(38,689)	(414)	(57,318)
Interest paid on capital debt	(3,391)	(383)	(77)	(3,851)
Net cash provided (used) by capital and related financing activities	<u>(36,709)</u>	<u>(47,213)</u>	<u>(491)</u>	<u>(84,413)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers from (to) other funds	(396,077)	(205,593)	(40,112)	(641,782)
Interfund interest received	(1,160)			(1,160)
Other revenue	3,045	2,027	146	5,218
Net cash provided (used) by noncapital financing activities	<u>(394,192)</u>	<u>(203,566)</u>	<u>(39,966)</u>	<u>(637,724)</u>
<b>Cash Flows From Investing Activities:</b>				
Interest income	1,768	37,648	121	39,537
Net cash provided (used) by investing activities	<u>1,768</u>	<u>37,648</u>	<u>121</u>	<u>39,537</u>
Net increase (decrease) in cash and cash equivalents	<u>(49,626)</u>	<u>58,837</u>	<u>3,698</u>	<u>12,909</u>
Cash and cash equivalents - July 1	1,361,694	999,788	292,867	2,654,349
Prior-period adjustment	1,841	(2,824)	983	
Cash and cash equivalents - July 1, restated	<u>1,363,535</u>	<u>996,964</u>	<u>293,850</u>	<u>2,654,349</u>
Cash and cash equivalents - June 30	<u>\$ 1,313,909</u>	<u>\$ 1,055,801</u>	<u>\$ 297,548</u>	<u>\$ 2,667,258</u>
<b>Reconciliation to Statement of Net Position:</b>				
Cash and investments	<u>\$ 1,313,909</u>	<u>\$ 1,055,801</u>	<u>\$ 297,548</u>	<u>\$ 2,667,258</u>

(Continued)

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS (Continued)  
 For the Fiscal Year Ended June 30, 2017

	Water Fund	Sewer Fund	Garbage Fund	Totals
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 543,390	\$ 173,806	\$ 56,709	773,905
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation expense	150,462	126,419	724	277,605
Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:				
Receivables, net	(44,302)	(2,445)	(13,211)	(59,958)
Prepaid expenses	8,514	(707)	(89)	7,718
Inventories	2,212	(7)		2,205
Joint venture deposits	(1,635)			(1,635)
Deferred outflows	(58,798)	(42,622)	(5,979)	(107,399)
Accounts payable	(6,415)	3,251	(11)	(3,175)
Accrued wages and benefits	(360)	874	(122)	392
Customer deposits	(272,694)	(29,465)		(302,159)
Net pension liability	78,034	56,566	7,935	142,535
Deferred inflows	(18,901)	(13,702)	(1,922)	(34,525)
Net cash provided (used) by operating activities	<u>\$ 379,507</u>	<u>\$ 271,968</u>	<u>\$ 44,034</u>	<u>\$ 695,509</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The Oceano Community Services District (the District) is a multipurpose special district established on January 1, 1981. The District is a political subdivision of the State of California and operates under a Board of Directors. The District provides water, wastewater, street lighting, and garbage franchise services.

The District complies with the United States Generally Accepted Accounting Principles (GAAP) and all relevant Government Accounting Standards Board (GASB) pronouncements. These technical pronouncements establish criteria for determining the District's activities and functions that are included in the financial statements of a governmental unit. The proprietary funds apply Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) unless those principles conflict with or contradict GASB pronouncements, in which case GASB prevails. There are no component units included in this report which meet the criteria of GASB Statement No. 14 as amended by GASB Statements No. 39, 61, and 80.

B. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item "b" below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or non-current) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District defines available to be within 60 days of fiscal year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest on long term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent that they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest, and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the District may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenditures. The District's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

OCEANO COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Basis of Presentation

*Government-wide Statements:*

The Statement of Net Position and the Statement of Activities display information about the District. These statements include the financial activities of the overall District government. Eliminations have been made to minimize the double counting of internal activities. Government activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

The fund financial statements provide information about the District's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred inflows of resources, liabilities, deferred outflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. All District funds are considered major funds.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for all proprietary funds. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

The funds of the financial reporting entity are described below:

**Governmental Funds**

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides for public administration and overall management as it pertains to the District as a whole as well as the District's street lighting services. It also accounts for the District's fire protection services as agreed upon with the Five Cities Fire Authority Joint Powers Authority.

**Proprietary Funds**

Enterprise Funds: Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Water Fund - This fund accounts for the operation and maintenance of the District's water distribution, treatment, and monitoring systems.

Sewer Fund - This fund is used to account for all activities of operating sewer services and maintaining the Sewer lines.

Garbage Fund - This fund is used to account for the garbage franchise services.

OCEANO COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

The County levies, bills, and collects property taxes and special assessments for the District. Property taxes levied are recorded as revenue in the fiscal year of levy, due to the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the District and the County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, excluding unitary tax (whether paid or unpaid). The County remits tax monies to the District every month and twice a month in December and April. The final amount which is "teetered" is remitted in August each year.

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments; the first is due November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the tax becomes delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

Property valuations are established by the Assessor of the County for the secured and unsecured property tax rolls. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax levy dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property, as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

E. Cash and Investments

The District pools the cash of all funds, except for monies deposited with fiscal agent in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the District's cash and investment pool. For purposes of the statement of cash flows, the District has defined cash and cash equivalents to be change and petty cash funds, equity in the District's cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The District maintains its cash balance in financial institutions in the United States. The balances at the institutions are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2017, the District held cash in financial institutions in excess of federally insured limits.

F. Accounts and Interest Receivable

In the government-wide statements, receivables consist of all revenues earned at fiscal year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Major receivable balances for the governmental activities may include sales taxes, property taxes, grants, and other fees, if any. Business-type activities report utilities as their major receivables.

In the fund financial statements, material receivables in governmental funds may include revenue accruals such as franchise tax, grants, service charges and other similar intergovernmental revenues that are both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned and if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at fiscal year-end and not yet received. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables.



OCEANO COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Expenses and Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method. The cost is recorded as an expenditure/expense in the funds at the time individual inventory items are purchased rather than when consumed. This is then adjusted by physical inventory at fiscal year-end. Inventory in the enterprise funds consist principally of materials and supplies for utility operations.

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

H. Capital Assets

The accounting treatment over property, plant, and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations. The presentation and recording of governmental assets are described below.

*Government-Wide Statements*

In the government-wide financial statements, capital assets with a historical cost of \$5,000 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, if any, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

With the implementation of GASB Statement No. 34, the District has recorded all its public domain (infrastructure) capital assets on the government-wide statements.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Water system	5-75 years
Sanitation system	10-50 years
Drainage	5-50 years
Administration	5-40 years

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are capitalized when purchased.

I. Accumulated Compensated Absences

Compensated absences comprise unused vacation leave, sick leave, and compensatory time off, which are accrued as earned. Vacation hours, which accrued from the first day of employment, can be taken immediately and are capped at 320 hours. Upon termination, all accumulated vacation hours up to 320 hours are paid out. Sick leave, which accrued from the first day of employment can be taken immediately and can be accrued up to 180 days or 1,440 hours. Upon termination, all accumulated vacation hours up to 180 days are paid out. Payments will be based on the pay rate at the time of termination. The District's liability for the current and long-term portions of compensated absences is shown in the government-wide Statement of Net Position for both governmental funds and proprietary funds. Only proprietary funds reflect the long-term portion in the fund financials report, Statement of Net Position. The short-term portion is reflected for both governmental and proprietary funds in the fund financial statements. Computation was based on rates in effect as of the fiscal year-end.

J. Long-Term Liabilities

In the government-wide financial statements, long-term liabilities are presented for both governmental and proprietary fund types. In the fund financial statements, only the proprietary funds show long-term liabilities. Initial issue bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the period when the debt is issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

OCEANO COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oceano Community Services District California Public Employees' Retirement System (CalPERS) Miscellaneous, Miscellaneous PEPRAs, and Safety Fire Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used:

Valuation Date:	June 30, 2015
Measurement Date:	June 30, 2016
Measurement Period:	July 1, 2015 through June 30, 2016

L. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred inflows of resources the District has recognized.

M. Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

N. Equity Classifications

*Government-Wide Statements*

GASB Statement No. 63 requires that the difference between assets and the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is *net investment in capital assets* consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. *Restricted net position* is the portion of the net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. *Unrestricted net position* consists of net position that does not meet the definition of net investments in capital assets or restricted net position.

*Governmental Fund Statements*

Fund balance is the difference between the assets and liabilities reported in the governmental funds. In compliance with GASB Statement No. 54, the District has established the following fund balance classifications:

*Non-spendable* – The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Restricted* – The restricted fund balance classification includes amounts that reflect constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

OCEANO COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Equity Classifications (continued)

*Committed* – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance, etc.) it employed to previously commit those amounts. Committed fund balance should also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – The assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent is to be established by (a) the Board of Directors itself or (b) the General Manager to which the Board of Directors has delegated the authority to assign amounts to be used for specific purposes.

*Unassigned* – The unassigned fund balance classification includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned for specific purposes within the General Fund.

When an expenditure is incurred for which both restricted and unrestricted fund balances are available, it is City's policy that the restricted fund balance be spent first followed by committed, then assigned, and, if applicable, unassigned.

O. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

P. Use of Estimates

The financial statements have been prepared in accordance with principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from these amounts.

**OCEANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 – CASH AND INVESTMENTS**

The composition of cash and investments as of June 30, 2017, is as follows:

Cash in bank and on hand	\$ 324,906
Investments	3,132,189
Total cash and investments, Statement of Net Position	<u>\$ 3,457,095</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the San Luis Obispo County Investment Pool, money market funds, and bank time deposits, however, these external pools or deposits measured at amortized cost are not required to be measured under Level 1, 2 or 3.

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types the District has that are authorized for the District by the California Government Code or the District's investment policy, where more restrictive, that addresses interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	30%	None
Placement Services Deposits	5 years	30%	None
Repurchase and Reserve			
Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
State Registered Warrants, Notes or Bonds	N/A	None	None
Notes and Bonds for other Local California Agencies	5 years	None	None
Local Agency Investment Fund	5 years	None	None

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity as of June 30, 2017.

OCEANO COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Bank time deposits	\$ 23,911	\$ -	\$ -	\$ 23,911	\$ -
Money market	828,640	828,640			
San Luis Obispo County Investment Pool	2,279,638	2,279,638			
	<u>\$ 3,132,189</u>	<u>\$ 3,108,278</u>	<u>\$ -</u>	<u>\$ 23,911</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year ended June 30, 2017 for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Bank time deposits	\$ 23,911	N/A	\$ -	\$ -	\$ -	\$ 23,911
Money market	828,640	N/A				828,640
San Luis Obispo County Investment Pool	2,279,638					2,279,638
	<u>\$ 3,132,189</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,132,189</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District minimizes its credit risk by investing only in the safest types of securities or investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Deposits are insured up to \$250,000.

The investment in the San Luis Obispo County Investment Pool is not required to be collateralized. The fair value of securities in the pool is based on quoted market prices. The San Luis Obispo County Treasurer's Office performs a monthly fair market valuation of all securities held against carrying costs. Reports of valuations and financial statements are available to participants on the San Luis Obispo County Treasurer's website.

OCEANO COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 3 – INTERFUND TRANSACTIONS**

Transfers between funds during the fiscal year ended June 30, 2017, were as follows:

**Interfund Transfers:**

<u>Governmental Fund:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 722,091	\$ -
<u>Proprietary Funds:</u>		
Water		357,078
Sewer		317,403
Garbage		47,610
	<u>\$ 722,091</u>	<u>\$ 722,091</u>

**Due To/Due From:**

<u>Governmental Fund:</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 489,827	\$ 551,167
<u>Proprietary Funds:</u>		
Water		542,717
Sewer	551,167	
Garbage	52,890	
	<u>\$ 1,093,884</u>	<u>\$ 1,093,884</u>

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2017 was as follows:

**Governmental activities:**

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>
Capital assets not being depreciated				
Land	\$ 610,390	\$ -	\$ -	\$ 610,390
Total capital assets not being depreciated	<u>\$ 610,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 610,390</u>
Capital assets being depreciated				
Buildings and improvements	\$ 2,044,971	\$ 7,210	\$ -	\$ 2,052,181
Vehicles and equipment	246,124	13,159	4,766	254,517
Total capital assets being depreciated	2,291,095	20,369	4,766	2,306,698
Less accumulated depreciation	1,124,628	42,608	4,766	1,162,470
Total capital assets being depreciated, net	<u>\$ 1,166,467</u>	<u>\$ (22,239)</u>	<u>\$ -</u>	<u>\$ 1,144,228</u>
Net capital assets	<u>\$ 1,776,857</u>	<u>\$ (22,239)</u>	<u>\$ -</u>	<u>\$ 1,754,618</u>

OCEANO COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS (Continued)

Business-type activities:

	Balance at July 1, 2016	Additions	Retirements	Balance at June 30, 2017
Capital assets not being depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Construction in progress		23,244		23,244
Total capital assets not being depreciated	<u>\$ 6,000</u>	<u>\$ 23,244</u>	<u>\$ -</u>	<u>\$ 29,244</u>
Capital assets being depreciated				
Buildings and improvements	\$ 6,793,281	\$ -	\$ -	\$ 6,793,281
Software	195,918			195,918
Vehicles and equipment	758,235			758,235
Total capital assets being depreciated	<u>7,747,434</u>			<u>7,747,434</u>
Less accumulated depreciation	<u>4,777,845</u>	<u>277,605</u>		<u>5,055,450</u>
Total capital assets being depreciated, net	<u>\$ 2,969,589</u>	<u>\$ (277,605)</u>	<u>\$ -</u>	<u>\$ 2,691,984</u>
Net capital assets	<u>\$ 2,975,589</u>	<u>\$ (254,361)</u>	<u>\$ -</u>	<u>\$ 2,721,228</u>

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2017:

	Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017	Current Portion	Long Term Portion
Governmental Activities:						
Compensated Absences	\$ 37,492	\$ 30,339	\$ 11,832	\$ 55,999	\$ -	\$ 55,999
Net Pension Liability	95,020	17,379	6,636	105,763		105,763
Total Governmental Activities	<u>\$ 132,512</u>	<u>\$ 47,718</u>	<u>\$ 18,468</u>	<u>\$ 161,762</u>	<u>\$ -</u>	<u>\$ 161,762</u>
Business-Type Activities:						
Capital Lease	\$ 31,279	\$ -	\$ 7,841	\$ 23,438	\$ 8,195	\$ 15,243
Water Revenue Bond	60,000		15,000	45,000	15,000	30,000
Net Pension Liability	350,260	201,356	58,821	492,795		492,795
Total Business-Type Activities	<u>\$ 441,539</u>	<u>\$ 201,356</u>	<u>\$ 81,662</u>	<u>\$ 561,233</u>	<u>\$ 23,195</u>	<u>\$ 538,038</u>

NOTE 6 – WATER REVENUE BONDS

In 1979, prior to the District's formation and while the water system was governed by the County of San Luis Obispo, revenue bonds were issued in the amount of \$318,300 for water system improvements. The bonds were issued at a 5% interest rate and a 40-year term until maturity in the fiscal year ended June 30, 2020. As of June 30, 2017 the outstanding bonded debt is \$45,000. The annual requirement to amortize the revenue bonds payable outstanding is as follows:

Water Revenue Bonds			
For the Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$ 15,000	\$ 1,875	\$ 16,875
2019	15,000	1,125	16,125
2020	15,000	375	15,375
Total	<u>\$ 45,000</u>	<u>\$ 3,375</u>	<u>\$ 48,375</u>

OCEANO COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 7 – CAPITAL LEASE PAYABLE

In November 2014, the District acquired a vehicle under a capital lease obligation. The capital lease obligation has been recorded in the accompanying financial statements at the present value of future minimum lease payments. The cost of the asset acquired under the lease totaled \$55,626 at a 4.423% interest to repaid in 60 monthly payments of \$756. As of June 30, 2017 the outstanding principal payable was \$23,438. The future minimum lease payments under the capital lease obligations and the net present value of the future minimum lease payments are as follows:

Vehicle Capital Lease	
For the Fiscal Year Ending June 30	Amount
2018	\$ 9,067
2019	9,067
2020	6,801
Total future minimum lease payments	24,935
Less amount representing interest	(1,497)
Present value of future minimum lease payments	<u>\$ 23,438</u>

NOTE 8 – PENSION PLANS

A. General Information about the Pension Plans

*Plan Descriptions*

All qualified permanent and probationary employees are eligible to participate in the District's separate Safety and Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

*Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Pre-Retirement Option Settlement. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2015. The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013
Hire Date		
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.50%
Required employer contribution rates	8.377% + \$18,508	6.555%



OCEANO COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 8 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

	<u>Safety</u>
	Classic Member
	Hired Prior to
Hire Date	<u>January 1, 2013*</u>
Benefit formula	2% @ 50
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50-55
Monthly benefits, as a % of eligible compensation	2.0-2.7%
Required employee contribution rates	N/A
Required employer contribution rates	\$ 5,029

\* A new employee may transfer into the Classic Member formula if he/she comes from another agency participating in the CalPERS or reciprocal retirement system and did not have more than a six month break in service.

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$4,851 for the Safety Plan and \$60,606 for the Miscellaneous Plan for the fiscal year ended June 30, 2017.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net position liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 518,140
Safety	80,418
Total	<u>\$ 598,558</u>

The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2016, the District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and June 30, 2016 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion-June 30, 2015	0.01394%	0.00167%
Proportion-June 30, 2016	0.01492%	0.00155%
Change-Increase (Decrease)	<u>0.00098%</u>	<u>-0.00012%</u>

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$656. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

OCEANO COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 8 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 988	\$ -
Changes in assumptions		17,851
Net difference between projected and actual earnings on retirement plan investments	92,468	
Adjustment due to differences in proportion	13,748	11,423
Changes in proportion and differences between District contributions and proportionate share of contributions		29,449
District contributions subsequent to the measurement date	65,457	
	<u>\$ 172,661</u>	<u>\$ 58,723</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$65,457 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:

Fiscal year ending June 30,	Amount
2018	\$ (10,075)
2019	(6,824)
2020	41,420
2021	23,960
	<u>\$ 48,481</u>

*Actuarial Assumptions*

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	Miscellaneous and Safety
Measurement Date	June 30, 2015
Actuarial Cost Method	June 30, 2016
Actuarial Assumptions:	Entry-Age Normal Cost Method
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)

- (1) Net of pension plan investment and administrative expenses including inflation
- (2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

OCEANO COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 8 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions  
 (Continued)

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

(a) An expected inflation of 2.5% was used for this period.

(b) An expected inflation of 3.0% was used for this period.

**OCEANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 8 – PENSION PLANS (Continued)**

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate*

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1- percentage point higher (8.65 percent) than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 821,877	\$ 112,849
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 518,140	\$ 80,418
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 267,117	\$ 53,796

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**C. Payable to the Pension Plan**

At June 30, 2017, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

**NOTE 9 – JOINT VENTURES**

State Water Project

In 1991, the District approved participation in the State Water Project (SWP). As a result, the District entered into two contracts with the San Luis Obispo County Flood Control and Water Conservation District (SLOFCD). One agreement is entitled "Water Supply Agreement" and the other is entitled "Water Treatment and Local Facilities Agreement."

The Water Supply Agreement is for the SWP source of supply, which is an allocation of 750 acre feet per year. The Water Supply Agreement incorporates by reference the SLOFCD agreement with the California Department of Water Resources (DWR), which is termed the "Master Water Supply Agreement." The District is obligated to pay its proportionate share of the cost of the SWP facilities owned by the California Department of Water Resources (DWR) that is used to convey the District's source of supply to the "Lopez Turnout," plus a proportionate share of the SLOFCD costs. The Lopez turnout connects the SWP facilities to Lopez facilities enabling State Water deliveries to the District. The District's prorated share of operating, maintenance, pumping, and other related costs are charged as an operating expense in the Water Fund. The portion of the costs that is fixed in nature must be paid regardless of water deliveries. Variable costs are paid based on actual water deliveries.

The Water Treatment and Local Facilities agreement is for treatment of the SWP supply and for construction associated with the Lopez Turnout, a local facility. The Water Treatment and Local Facilities agreement incorporates by reference the SLOFCD agreement with the Central Coast Water Authority termed the "Master Water Treatment Agreement." The District is obligated to pay its proportionate share of treatment facilities owned and operated by CCWA, and for the cost of local facilities specifically benefitting the District – the Lopez Turnout. The portion of the costs that is fixed in nature must be paid regardless of water deliveries. Variable costs are paid based on actual water deliveries.

The District is required to make payments under its Water Supply agreement and its Water Treatment and Local Facilities agreement from the revenues of its water system. The District has agreed in its agreements to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year's net revenues equal to 125% of the sum of (1) the payment required pursuant to the agreements, and (2) debt service on any existing participant obligation for which revenues are also pledged.

**OCEANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 9 – JOINT VENTURES (Continued)**

State Water Project (Continued)

On October 1, 1992, CCWA sold \$177,120,000 in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat SWP water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, local facilities needed to deliver such water to the participating water purveyors and users, and certain other local improvements to the water systems of some of the participating purveyors. In November 1996, CCWA sold \$198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173,015,000 and Series B of \$25,000,000. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction Fund and the Reserve Fund upon completion of the construction of the CCWA facilities.

The District's current fiscal year State water project expense totaled \$769,032. All of the District's disbursements were paid to the SLOFCD, which is obligated to pay to DWR and CCWA the District's proportionate share of costs to those agencies.

The District also contracts with SLOFCD for an annual allocation of 303 acre feet of water from the Lopez project, issued a voter approved general obligation bonds for the purpose of building Lopez Dam, a storage reservoir, water treatment plant, and other facilities to provide a primary municipal water supply. The District has entered in to a water supply agreement wherein the District has agreed to pay annually, regardless of water deliveries, a prorated percentage of certain costs. In addition, the District also pays the San Luis Obispo County Flood Control and Water Conservation District a prorated share of operating, maintenance, pumping, and related operating costs which are charge as an operating expense in the Water Fund. The District's current fiscal year San Luis Obispo County Flood Control and Water Conservation District expense totaled \$457,285.

South San Luis Obispo County Sanitation District

The District does not own and operate a separate wastewater treatment plant facility. The Oceano Community Services District's waste is transported through District owned and District maintained lines for processing at the South San Luis Obispo County Sanitation District plant.

Five Cities Fire Authority

The District is a member of the Five Cities Fire Authority (FCFA), a joint powers authority between the Cities of Arroyo Grande, Grover Beach, and the Oceano Community Services District. FCFA was formed on July 9, 2010, for the purpose of providing a more efficient fire protection service within the City limits of Arroyo Grande, and Grover Beach, as well as the towns of Oceano and Halcyon. Each member contributes its pro rate share of operating costs to FCFA based on a funding formula, calculated annually. In 2015, it was determined that adherence to the funding formula had not occurred in prior years. Any recalculation of prior year funding, and adjustments that may be made to remedy differences between actual funding and funding that would have adhered to the agreement establishing the joint powers authority is indeterminable at this time.

The FCFA governing board consists of one member appointed from each participating entity and shall be appointed as determined by the respective City Council or Board of Directors. All financial decisions are made by this three-member board. The District contributed \$779,965 to FCFA during the fiscal year ended June 30, 2017 for fire protections services. Separate financial statements may be obtained from the Five Cities Fire Authority at 140 Traffic Way in Arroyo Grande, California.

**NOTE 10 – RISK MANAGEMENT AND CONTINGENCIES**

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (JPRIMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for small California water agencies. The purpose of the JPRIMA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2017, the District participated in the liability and property programs of the JPRIMA as follows:

- General and auto liability: The District has a \$500 deductible for general and auto liability. The District purchased additional excess coverage layers: \$5 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage and public officials' liability up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud coverage's.
- Property loss/Boiler and Machinery is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$4 million subject to a \$1,000 deductible per occurrence for most equipment.

**OCEANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 10 – RISK MANAGEMENT AND CONTINGENCIES (CONTINUED)**

Risk Management (Continued)

- Workers' compensation insurance provides coverage with a self-insured retention limit of \$1 million for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2017, 2016 and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2017, 2016 and 2015.

Legal Contingency

In the opinion of management and legal counsel, the disposition of any litigation pending will not have an anticipated material effect on the City's financial statements as of June 30, 2017.

Construction Contingency

The District has no construction contingencies as of June 30, 2017.

**NOTE 11 – PRIOR-PERIOD ADJUSTMENTS**

The District made a prior-period adjustment to the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances of \$135,067. The adjustment was to convert the previous full accrual method of accounting in the Governmental Fund statements to the modified accrual basis of accounting required by the Governmental Accounting Standards Board by removing the balances for compensated absences, net pension liability, and deferred outflows and inflows of resources for pension from the Statement.

The District made a prior-period adjustment to the Water Fund, Sewer Fund, and Garbage Fund in the Proprietary Funds Statement of Revenues, Expenditures, and Changes in Net Position of \$3,620, (\$5,380), and \$1,760 respectively in order to consistently apply the allocation of all assets, liabilities, and net position of the internally recorded Equipment Fund.

The District made a prior-period adjustment to the Water Fund, Sewer Fund, and Garbage Fund in the Proprietary Funds Statement of Revenues, Expenditures, and Changes in Net Position and to the General Fund in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance of (\$1,160), \$35,517, \$120, and (\$34,477) respectively in order to report accrued interfund interest that should have been applied in the previous year on interfund loans.

**NOTE 12 – SUBSEQUENT EVENTS**

The District Board decided to payoff the remaining balance in full of the 1979 Water Revenue Bonds with the payment occurring on November 17, 2017.

**REQUIRED SUPPLEMENTARY INFORMATION**





OCEANO COMMUNITY SERVICES DISTRICT  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes and assessments	\$ 907,185	\$ 907,185	\$ 958,154	\$ 50,969
Public facility fee	15,000	15,000	25,358	10,358
Interest income			2,609	2,609
Rental income	140,670	140,670	140,640	(30)
Other	1,500	1,500	5,948	4,448
Total revenues	1,064,355	1,064,355	1,132,709	68,354
<b>Expenditures:</b>				
Salaries, wages and director stipends	392,685	392,685	401,031	(8,346)
Payroll taxes and employee benefits	135,176	135,176	137,361	(2,185)
Liability insurance	23,515	23,515	25,931	(2,416)
Repairs and maintenance	30,500	35,500	24,517	10,983
Administrative services	25,500	25,500	25,338	162
Data processing	13,000	13,000	7,318	5,682
Dues and fees	23,552	23,552	22,798	754
Education	5,000	5,000	2,746	2,254
Legal fees	84,000	84,000	58,620	25,380
Miscellaneous	13,700	13,700	7,047	6,653
Office expense	9,150	9,150	7,297	1,853
Street lighting	42,000	45,300	36,202	9,098
Professional fees	43,500	90,891	63,727	27,164
Utilities	49,400	49,400	50,672	(1,272)
Public safety	779,965	779,965	779,965	
Capital outlay	40,000	40,000	20,369	19,631
Interest expense	9,067	9,067	37,648	(28,581)
Total expenditures	1,719,710	1,775,401	1,708,587	66,814
Excess of revenues over (under) expenditures	(655,355)	(711,046)	(575,878)	135,168
<b>Other Financing Sources (Uses)</b>				
Transfers in	744,146	772,546	722,091	(50,455)
Total other financing sources (uses)	744,146	772,546	722,091	(50,455)
Net change in fund balance	88,791	61,500	146,213	84,713
Fund balance - July 1	481,901	481,901	481,901	
Prior-period adjustment			100,590	100,590
Fund balance - July 1, restated	481,901	481,901	582,491	100,590
Fund balance - June 30	\$ 570,692	\$ 543,401	\$ 728,704	\$ 185,303

OCEANO COMMUNITY SERVICES DISTRICT  
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
 Last 10 Years\*  
 As of June 30, 2017

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The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.00692%	0.00649%	0.00676%
Proportionate share of the net pension liability	\$ 598,558	\$ 445,280	\$ 420,438
Covered- employee payroll	\$ 437,408	\$ 453,904	\$ 312,044
Proportionate share of the net pension liability as percentage of covered-employee payroll	136.84%	98.10%	134.74%
Plan's total pension liability	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

**Notes to Schedule:**

Changes in assumptions

In 2016, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent for an adjustment to exclude administrative expense.

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

\*- Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

OCEANO COMMUNITY SERVICES DISTRICT  
 SCHEDULE OF CONTRIBUTIONS  
 Last 10 Years\*  
 As of June 30, 2017

The following table provides required supplementary information regarding the District's Pension Plan.

	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 65,457	\$ 52,723	\$ 49,702
Contribution in relation to the actuarially determined contributions	(65,457)	(52,723)	(49,702)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered- employee payroll	\$ 544,352	\$ 437,408	\$ 453,904
Contributions as a percentage of covered-employee payroll	12.02%	12.05%	10.95%

**Notes to Schedule**

Valuation Date:	6/30/2015
Methods and assumptions used to determine contribution rates:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

\*- Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

